

Message Text

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PAGE 01 MANAGU 04261 121459Z
ACTION ARA-15

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R 112245Z SEP 78
FM AMEMBASSY MANAGUA
TO SECSTATE WASHDC 7756
INFO USDOC WASHDC
AMEMBASSY GUATEMALA
AMEMBASSY SAN JOSE
AMEMBASSY SAN SALVADOR
AMEMBASSY TEGUCIGALPA

UNCLAS MANAGUA 4261

E.O. 11652: NA
TAGS: EGEN, NU
SUBJECT: GON DECLARES STATE OF ECONOMIC EMERGENCY AND IMPOSES
EXCHANGE CONTROLS

NICARAGUAN LEGISLATURE APPROVED ON SEPTEMBER 8 A MEASURE
PROPOSED BY THE EXECUTIVE WHICH PUTS INTO EFFECT A
STATE OF ECONOMIC EMERGENCY. THE STATE OF EMERGENCY
WILL LAST ONE YEAR. THE MEASURE SUSPENDS THE GUARANTEES
CONTAINED IN ARTICLE 65 OF THE CONSTITUTION. THE
REASON GIVEN FOR THE MEASURE IS TO PROTECT THE CONSUMER.
THE PRACTICAL EFFECT IS TO GIVE THE GON (THE EXECUTIVE)
POWER TO IMPOSE ECONOMIC CONTROLS THAT IT DEEMS ARE
NECESSARY TO DEAL WITH THE VERY DIFFICULT ECONOMIC SITUA-
TION PREVALENT IN NICARAGUA. ON SEPTEMBER 9 THE MINISTRY
OF ECONOMY ANNOUNCED THAT IT WOULD IMPOSE EXCHANGE CON-
TROLS I.E. CORDOBAS CAN NOT BE EXCHANGED FOR US DOLLARS
OR OTHER HARD CURRENCIES. THE MANAGER OF THE CENTRAL
BANK CONFIRMED TO ECONOFF THAT THE MINISTRY OF
ECONOMY HAD IMPOSED THE CONTROLS AND THAT NO TIME
FRAME HAD BEEN DECIDED UPON BUT HE HOPED IT WOULD
BE TEMPORARY. HE SAID THE CENTRAL BANK WOULD BE
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PAGE 02 MANAGU 04261 121459Z

FLEXIBLE IN THE ADMINISTRATION OF THE CONTROLS.
HE SAID CONTROLS WERE IMPOSED TO PREVENT SHORT TERM
CAPITAL FLIGHT. FINANCING OF IMPORTS WOULD NOT BE
EFFECTED NOR WOULD PAYMENTS OF PUBLIC OR PRIVATE
EXTERNAL DEBT NOR WOULD TRAVEL ESPECIALLY FOR STUDENTS
STUDYING ABROAD.

COMMENT: ALTHOUGH NOT YET ANNOUNCED, WE ANTICIPATE THAT THE GON WILL SOON ANNOUNCE CONTROLS OF PRICES AND PERHAPS WAGES. THE PRICE CONTROLS MAY BE LIMITED TO BASIC CONSUMER ITEMS SUCH AS RICE, BEANS AND CORN AS WELL AS RAW MATERIALS FOR LOCAL INDUSTRIES THAT ARE UNDER SUPPLY PRESSURE DUE TO THE STRIKE STILL IN EFFECT AS OF TODAY SEPTEMBER 11. THE EXCHANGE CONTROLS AND THE PRICE CONTROLS, IF ENACTED, REPRESENT GON EFFORTS TO DEAL WITH A DETERIORATING ECONOMIC SITUATION WHICH COULD TURN INTO A MAJOR RECESSION FOR THE NICARAGUAN ECONOMY IN THE LAST QUARTER OF 1978 AND IN 1979. THE EMBASSY ALREADY ANTICIPATED A ZERO GROWTH RATE AT BEST FOR 1978 WITH A VERY GOOD CHANCE OF A DECLINE IN GDP FOR THE YEAR.

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